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SUBJECT: IRAQ'S OIL BID ROUND 2: U.S. FIRMS' PARTICIPATION

REF: BAGHDAD 3196

Classified By: Economic Minister Counselor John Desrocher for reasons 1.4 b,d

11. (SBU) Summary: Only one U.S. firm bid for a contract in Iraq's second oil bid round, as part of a larger consortium, and that consortium did not win. U.S. companies' decisions on whether or not to participate were driven by myriad complex factors and judgments the companies hold very close to their vests. Of the seven U.S. firms qualified to bid in the second round, three are "fast followers" rather than pathbreakers, two presumably were satisfied with the contracts they received in the first round, and the final two apparently concluded the modest potential return wasn't worth placing bids. Some media outlets have noted that U.S. firms did not win any contracts in the second bid round, and question whether the firms were somehow "shut out" of Iraq. Our points in paragraph 7 respond to this characterization, but we would also point out the competitive and transparent nature of the bidding, the diversity of winners (no company or country dominated), and the fact that each firm bid (or not) based on its analysis of the likely attractiveness of that investment. Nothing in the bid process disadvantaged American firms. This message contains business proprietary information. End Summary

12. (SBU) This cable is one in a series analyzing the impacts of Iraq's Second Petroleum Licensing Round ("bid round"), held December 11-12 in Baghdad. Results of the bid round are detailed in reftel. Other cables in this series analyze the impact on Iraq's investment climate, impacts on domestic and sectarian politics, implications for OPEC, and the challenges (notably infrastructure) to attaining the ambitious production targets set by the bid rounds.

U.S. Oil Companies: Seen But Not Heard  
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13. (C) Seven U.S. oil companies were pre-qualified to bid in Iraq's second bid round. Of those seven, three (Anadarko, Hess, and Marathon) decided that they would not be early participants in the opening of the Iraqi oil sector. None of the three attended or bid on assets auctioned in either Iraq's first or second bid rounds (held June 30 and December 11-12, respectively). Post has not had the opportunity to discuss strategy with these firms; however, industry observers suggest that these firms are "fast followers" rather than pathbreakers. One or more of the companies could become involved in future Iraqi oil fields, either by developing smaller projects, or "farming-in" to existing developments.

14. (C) One of the other four U.S. firms, ConocoPhillips,

participated in the first bid round as a member of a consortium led by Russia's Lukoil, assuming a one third share to Lukoil's two thirds. Their losing bid was the third ranked bid of five on the West Qurnah Phase 1 field. At a proposed USD 6.49 per barrel, their bid was over 50 percent higher than the lowest bid (put in by ExxonMobil) and over three times higher than the maximum fee the GOI later indicated it would be willing to pay. In the first bid round, ConocoPhillips also led a consortium (with CNOOC and Sinochem, both Chinese firms), bidding on the field at Bai Hassan. That bid, at USD 26.70 per barrel, was by far the highest fee requested in the bid round. Though they were the highest fee requested in the bid round. Though they were the sole bidders, they refused to reduce their offer to the maximum USD 4.00 fee offered by the GOI, and walked away with no award. ConocoPhillips did not participate in the second bid round, though its former bidding partner Lukoil did so. (Note: ConocoPhillips also owns a 20 percent share of Lukoil. End note.) Lukoil produced by far the most aggressive bid of the second round, at just USD 1.15 per barrel to develop the super-giant West Qurnah Phase 2 field. No other bid came close, perhaps indicating that the rest of the companies present did not feel they could produce that field at a profit for such a low price.

15. (C) The three remaining pre-qualified U.S. companies -- ExxonMobil, Occidental, and Chevron -- were present at both bid rounds. ExxonMobil and Occidental each participated in winning consortia in the first bid round, and will participate in the production of approximately one third of Iraq's new, projected oil production. Chevron chose not to bid in the first bid round, reportedly after careful consideration of political and contractual risk. In the second bid round, both ExxonMobil and Chevron chose not to bid. Both were present, however, and privately confirmed that they had actively followed the proceedings and engaged in discussions with potential consortia partners. ExxonMobil told us that they felt less pressure to bid in the second round after winning a major contract following the June 30 round. Chevron, meanwhile, appeared awestruck at the thin margins bidders were accepting in the second bid round, and were visibly uncomfortable with the "single digit... low single digit" returns on investment they projected such bids would yield. The sole U.S. firm to bid during the second bid round was Occidental, which again joined with its first bid round consortium partner Eni (Italy) in bidding (along with Kogas, Sonangol, and CNOOC) on Halfaya oil field. That (unsuccessful) bid was the highest of any bid in the second bid round and a whopping USD 11.50 higher than the winning bid.

16. (C) Comment: U.S. oil firms did not win any second round oil fields because, except for Occidental, they did not bid. Why the companies chose not to bid remains a proprietary secret, but almost certainly was based primarily on their financial calculations of return on investment or other measures of investment attractiveness. The process was transparent and competitive, and all seven invited U.S. firms were free to place a bid, singly or as members of a consortium. Interestingly, those U.S. and non-U.S. firms that won fields from the first bid round did so at substantially higher fees than the winning bids in the second bid round. As a result, the first round winners potentially stand to make much better returns on investment than the winners of the second bid round. In short, U.S. firms may be better off having won in the first round than the second bid round. Certainly the companies we have spoken with seem to think so.

Diverse Participation Neither Favored nor Discriminated

17. (SBU) That the second bid round was not dominated by firms from any one nation confirms that the round was transparent, competitive, and played no political favorites. Participation in the bid round and in the final awards was diverse, with no nation or company dominating the results. Overall, in the two bid rounds, the MOO invited 44 companies from 23 countries to bid. Of those, some 21 companies from

17 countries chose to bid, and 15 companies from 13 countries were awarded contracts. Companies with contracts to develop Iraq's oil now come from all five United Nations Security Council P-5 countries: ExxonMobil and Occidental (U.S.); BP and Shell (UK); Lukoil and Gazprom (Russia), Total (France); and CNPC (PRC). Other countries represented include the Netherlands, Italy, Malaysia, Japan, Norway, Turkey, Korea, and Angola. Companies from countries including Vietnam, India, and Kazakhstan also bid, but did not win contracts. (Comment: Chinese company Sinopec was barred from the round for its bilateral business deals, considered illegal by the GOI, with the Kurdistan Regional Government. End Comment.)  
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